

Sample (fictional) Annual Statement of Assurance Memorandum

DCM ACME

MEMORANDUM FOR COMMANDER, DEFENSE CONTRACT MANAGEMENT
DISTRICT XYZ

SUBJECT: Annual Statement Required under the Federal Managers' Financial
Integrity Act (FMFIA) of 1982, QUALIFIED

As the Commander of Defense Contract Management (DCM) ACME, I recognize the importance of management controls and have taken the necessary measures to ensure that evaluations of the system of mission, management, and administrative controls of DCM ACME have been conducted in a conscientious and thorough manner. The results indicate that the system of management controls in effect during the fiscal year that ended September 30, 2000, taken as a whole, support my conclusion that I have reasonable assurance that management controls are in place and operating effectively, except for two material weaknesses described herein.

TAB A describes the basis of the evaluation and results of the system of mission, management, and administrative controls.

[SAMPLE – provide as applicable]

The evaluation disclosed one prior year weakness was closed and one prior year weakness remains open, which are presented as follows:

TAB B-1 is a listing of corrected and uncorrected material weaknesses.

TAB B-2 provides a summary presentation of the one uncorrected material weakness regarding deficiencies in our management information system and Information Technology infrastructure.

TAB B-3 provides a summary presentation of a material weakness corrected this fiscal year regarding inadequate deployment of Management Control Review processes.

[signed]

JANE DOE
Colonel, USAF
Commander

Attachments

1. Report of the Evaluation and Results (TABs A, B-1, B-2, and B-3)
2. Areas of Concern

Sample (fictional) Annual Statement of Assurance
Report of the Evaluation and Results

REPORT OF THE EVALUATION AND RESULTS
(TAB A, TAB B-1, TAB B-2, TAB B-3)

OF
DEFENSE CONTRACT MANAGEMENT ACME

FISCAL YEAR 2000
ANNUAL STATEMENT OF ASSURANCE

DESCRIPTION OF THE CONCEPT OF
REASONABLE ASSURANCE
AND HOW THE EVALUATION WAS CONDUCTED

TAB A

The concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve stated policy objectives.

Statements of reasonable assurance are provided within certain limits:

- The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment.
- Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of mission, management, and administrative controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors.
- Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The evaluation of management controls encompassed operational, management, administrative, and financial responsibilities, as defined in various Department of Defense (DoD) and Defense Contract Management Agency (DCMA) policies, at all organizational activities under the cognizance of DCM ACME. The evaluation was performed in accordance with DoD Instruction 5010.40, Management Control (MC) Procedures (dated August 28, 1996) and DLA Directive 5000.4, Contract Management, Chapter 12.1 .1, Management Control Reviews. The results indicate that the system of mission, management, administrative, and financial controls of DCM ACME in effect during the fiscal year ending September 30, 2000, taken as a whole (with the two exceptions noted in TAB B--Z and TAB B-3), complies with the requirement to provide reasonable assurance that DoD and DCMA management control objectives were achieved.

[SAMPLE] It should be noted that at the start of the fiscal year, the management information system and supporting Information Technology infrastructure, and system of self-assessment could not provide this newly assigned Commander reasonable assurance that the above statements were true. In the ensuing months great improvements have been made sufficient to support my assertions herein.

Sample (fictional) Annual Statement of Assurance
Attachment 1, TAB A, pages A-1 through A-2

The basis for which DCM ACME can provide reasonable assurance that objectives of management control have been accomplished is derived from the following Management Control Review processes executed in Fiscal Year 2000 (FY00):

Risk Assessment (including internal Contract Management Office (CMO) as well as contractor(s) systems and processes): (identify risk assessments performed)

Planning and Programming (performance plan, performance contract, budget formulation, and budget execution): (identify and briefly describe the performance plan, performance contract, business case(s), and method(s) used to track budget execution)

Management Reviews (mission, financial, and special item performance): (identify the frequency performed and corrective action process)

Unit Self-Assessment: (identify when last scheduled and accomplished)

Management Control Reviews: (identify the number performed: the number with deficiencies in mission, administrative, and/or mission support processes requiring corrective action, and the number for which corrective action is not on schedule)

Internal Operations Assessment: (if performed, or corrective action continued into the current fiscal year, identify the number of areas requiring corrective action and status of the improvement plan, e.g., xx corrective action items planned, xx completed, xx open, original completion date: XXX 2000, and current completion date: XXX 2001)

DoD Inspector General Audit(s) (District only): (briefly identify findings and corrective actions)

GAO Audit(s) (District only): (briefly identify findings and corrective actions)

Criminal Investigative Services Investigation(s) (District only): (identify number and, if known, general findings and corrective actions)

Other: (as applicable)

Following Pages as Applicable

TABs B-1, B-2 and/or B-3 will be included in Attachment 1 of your Statement only if reporting one or more Material Weaknesses identified during the fiscal year and/or carried over from the previous year.

Submitting Areas of Concern is optional, and if identified, will be included in your Statement as Attachment 2.

**MATERIAL WEAKNESSES
LISTING**

TAB B-1

Uncorrected Weakness Identified During the Period:

<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page Number</u>
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Uncorrected Weakness Identified During Prior Periods:

<u>Title</u>	<u>Reported Correction Fiscal Year:</u>			<u>Page Number</u>
	<u>FY First Reported</u>	<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
Inaccurate Management Information and Inadequate Information Technology Infrastructure Support	FY 1999	FY 2000	FY 2001	B-2-1

Corrected Weakness Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page Number</u>
DCM ACME's Inadequate Deployment of Management Control Review Processes	FY 1999	B-3-1

UNCORRECTED MATERIAL WEAKNESS A SUMMARY PRESENTATION

TAB B-2

Title and Description of Material Weakness: Inaccurate Manaoement Information and Inadequate Information Technolonv Infrastructure Support. This summary provides the status of corrective milestone events planned by the Defense Contract Management (DCM) ACME regarding deficiencies in its management information system and supporting automated infrastructure.

The management control weakness was identified by a Headquarters (HQ) Defense Contract Management Agency (DCMA) Internal Operations Assessment (IOA) Team during a review conducted September 21-25, 1999. The IOA Team reported that DCM ACME had not deployed a systematic process that could ensure accurate data was available to support management decisions. Additionally, DCM ACME's Information and Technology (IT) infrastructure was fraught with deficiencies that impacted data integrity, and the effectiveness and quality of job performance of its employees executing mission processes, and administrative and management functions. Also, the IT infrastructure utilized by DCM ACME was not fully Year 2000 (Y2K) compliant.

The IT infrastructure deficiencies adversely affected the ability of remote system users to either access or input data accurately, or at all. Frustrated with the problems, some employees manually faxed data to the process owner located at the main office to make the input (a duplicative effort full of possible transcribing errors), while several other employees simply stopped inputting and or maintaining required data. Additionally, hardware at one remote Local Area Network (LAN) and several computer workstations were not Y2K compliant, which could adversely impact the affected employees' connectivity. The training program was so poorly managed that training requirements could not be accurately determined, which adversely affected related management decisions and resulted in unknown instances of uncertified employees performing work. Data integrity audits of both performance measures (metric data) and labor management data had not been planned nor accomplished. Inaccuracies in the data adversely impacted management's ability to accurately determine mission performance and to make viable adjustments to assignments in labor resources and management emphasis.

Functional Category: Contract Administration

Pace of Corrective Action:

Year Identified: FY 1999 (review identifying deficiencies was completed at the end of FY 1999 subsequent to submittal of the FY 1999 Annual Statement of Assurance)

Original Targeted Correction Date(s): FY 2000

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: FY 2001

Reason for Change in Date: N/A

Component/Appropriation/Account Number: Defense Contract Management Agency

Validation Process: HQ DCMA will conduct a follow-up Internal Operations Assessment to determine if corrective action is completed, and District XYZ will evaluate if the IT infrastructure improvements are sustainable. Certification Date: November 2000.

Results Indicators: Quality and accuracy of management data will improve. The IT infrastructure will enable the workforce to perform their mission efficiently and effectively.

Source(es) Identifying Weakness: HQ DCMA Internal Operations Assessment.

Major Milestones in Corrective Action:

Completed Milestones:

Date:	Milestone:
9/99	Appointment letter for the DCM ACME Performance Improvement Officer (PIO), signed by Commander
10/99	DCM ACME, Standard Operating Procedure (SOP) 00-04, Determination and Management of Training Requirements Process, approved by Commander
10/99	DCM ACME, SOP 00-05, Management of DCM ACME Management Information System Data, approved by Commander

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Attachment 1 TAB B-2 pages B-2-1 through B-2-4

- 10/99 DCM ACME revised Management Control Review format (incorporating DCMA/District/Local metric and Performance Labor Accounting System data validations) approved by Commander
- 11/99 DCM ACME Internal Operations Assessment (IOA) Improvement Plan submitted for approval
- 1/00 DCM ACME IOA Improvement Plan approved by DCMA Director
- 1/00 DCM ACME data integrity audit and results analysis completed
- 2/00 Review of all Individual Development Plans, and identification and prioritization of training needs completed
- 3/00 Submit DCM ACME FY 2001 Performance Plan, budget, and Performance Contract (with corrected training and metric data inputs, and IT needs incorporated) to District XYZ
- 4/00 Reorganize all GS-334 series Computer Specialists to be centrally managed by the DCM ACME Computer Support Office (Union and District approval obtained)
- 5/00 DCM ACME Executive Steering Committee completed detailed review of IOA Improvement Plan progress and adequacy

Planned Milestones (FY 2000)

- | Date: | Milestone: |
|--------------|--|
| 10/01 | Receive shipment of xx upgraded computer workstations and remote LAN equipment |
| 11/01 | Configure and install xx individual computer workstations and remote LAN equipment |
| 11/01 | Complete Y2K compliance test of entire IT system |
| 12/01 | Complete Y2K adjustments/upgrade of IT system |

Planned Milestones (Beyond FY 2001) N/A

Point of Contact: John Smith, Chief, Management Support Group, DCM ACME (000) 000-0000, DSN 000-0000

CORRECTED MATERIAL WEAKNESS A SUMMARY PRESENTATION

TAB B-3

Title and Description of Material Weakness: DCM ACME's Inadequate Deployment of Management Control Review Processes. This summary provides the status of corrective milestone events regarding the establishment of a self-assessment process that will ensure deficiencies pertaining to the proper execution of contract administration services (mission) processes, ancillary administrative processes, and management systems are identified and corrected.

The management control deficiencies were identified by a special internal review team, which was established by the Commander, DCM ACME on June 1, 1999 for the purpose of reviewing the Management Control Review processes. The deficiencies were reported in DCM ACME's Fiscal Year (FY) 1999 Annual Statement of Assurance, dated July 31, 1999, as an uncorrected material weakness. A Headquarters (HQ) DCMA Internal Operations Assessment (IOA) Team observed the same deficiencies during a review conducted September 21-25, 1999. Both teams reported that DCM ACME had failed to implement a self-assessment process that complied with policy stated in Defense Logistics Agency Directive (DLAD) 5000.4, Contract Management, Chapter 12.1.1, Management Control Reviews. DCM ACME had implemented an adequate monthly Mission Management Review process that identified processes that were, or were not, producing stated performance goals and objectives. However, the deficiencies pertaining to inaccurate management information and inadequate information technology infrastructure support impacted the outcome of the monthly reviews. The following MCAP deficiencies were identified:

Risk Assessment of mission processes was accomplished by the Management Control Program point-of-contact who could not justify the ratings applied to the Contractor Risk factor. The absence of comment by supervision and management to the draft Risk Assessment document indicated a lack of management commitment and involvement. Support/administrative processes were not listed on the document and had not been risk rated. Additionally, the Risk Assessment had not been reviewed annually for possible updating as required by DCMA policy.

The **Self-Assessment Schedule** indicated that low risk-rated processes were scheduled while high risk-rated processes had not. The Schedule's indicated completion date for Unit Self-Assessments (**USAs**) contradicted the documentation contained in the USA files. Additionally, changes to the schedule could not be

explained, nor could the fact that two high risk-rated processes, included in last year's schedule and annotated as being rescheduled for the next year, were excluded from the current schedule. Documentation indicated that the Management Control Program point-of-contact developed the schedule without input or even tacit approval from management.

Management Control Review (MCR) documentation format was inconsistently applied; also, documentation was so poor it was impossible to determine to what extent several processes had been reviewed, and what had been observed. Where deficiencies had been documented, documentation **was** insufficient to support that corrective action had occurred. There was not a tracking system in place to ensure corrective action was developed for and completed and validated on identified deficiencies.

The **Unit Self-Assessment (USA)** process was accomplished inconsistently for the past three years. Assignment of the USA Coordinator and Category Champions varied often each year and during the course of the year as well. Areas for Improvement (**AFIs**) had been identified, but documentation did not support why some were included and/or excluded from the Performance Plan during the past three years. In fact, documentation did not support **AFIs** that had not been transitioned into the following year's USA as being corrected, or that some other determination had been made. An analysis of the **AFIs** had not been accomplished to determine whether conditions had improved or degraded since the prior analysis. Additionally, leadership's role in the USA and related follow-up was very limited.

The **Internal Customer System (ICS)** program had not been adequately implemented. The top two **AFIs** had been identified, selected, and included in the Performance Plan; however, the top two **AFIs** and others had not been incorporated into the USA process. Progress on closing out the corrective action plan for the top two **AFIs** had not occurred as a result of a lack of leadership involvement in the ICS.

Functional Category: Contract Administration

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2000

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 2001

Reason for Change in Date(s): The IOA conducted subsequent to the original report interjected an additional validation step by HQ DCMA that could not be scheduled prior to the first quarter of FY 2001.

Component/Appropriation/Account Number: Defense Contract Management Agency

Validation Process: DCMA HQ will conduct a follow-up IOA no later than the end of the first quarter of FY 2001 to verify DCM ACME's corrective action plan has been accomplished and ensure corrective action is sustainable.

Results Indicators: Documentation will support that the Risk Assessment, Self-Assessment Schedule, USA, MCR, ICS, Mission Management Review, and Performance Plan processes are integrated and operating to policy requirements. Efficiency and effectiveness of mission accomplishment will improve over time.

Source(es) Identifying Weakness: Special DCM ACME internal review team and the Headquarters DCMA Internal Operations Assessment of DCM ACME's mission and administrative processes and management system.

Maior Milestones in Corrective Action:

Completed Milestones:

Date:	Milestone:
7/99	DCM ACME, Standard Operating Procedure (SOP) 99-01, Executive Steering Committee Process, approved by Commander
7/99	DCM ACME Continuous Improvement Program, approved by Commander
7/99	DCM ACME SOP 99-02, Risk Assessment Process, approved by Commander
7/99	DCM ACME SOP 99-03, Mission Management Review (MMR) Process, approved by Commander
8/99	DCM ACME SOP 99-04, Management Control Review (MCR) Process, approved by Commander

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- 8/99 DCM ACME SOP 99-05, Unit Self-Assessment (USA) Process, approved by Commander
- 9/99 DCM ACME SOP 99-06, Internal Customer System (ICS) Process, approved by Commander
- 10/99 DCM ACME revised FY 2000 Self-Assessment Schedule approved by Commander and submitted to District XYZ
- 10/99 DCM ACME revised MCR format and corrective action tracking system approved by Commander
- 11/99 DCM ACME Internal Operations Assessment (IOA) Improvement Plan submitted for approval
- 1/00 DCM ACME IOA Improvement Plan approved by DCMA Director
- 1/00 DCM ACME FY 2000 USA and gap analysis completed
- 2/00 Initiate continuous USA and gap analysis process
- 3/00 Submit DCM ACME FY 2001 Performance Plan (with USA, MCR, and ICS inputs incorporated) submitted to District XYZ
- 5/00 DCM ACME Executive Steering Committee detailed review of IOA Improvement Plan progress and adequacy
- 8/00 Reevaluate Risk Assessment and complete FY 2001 Self-Assessment Schedule

Point of Contact: Jill Jones, Chief, Technical Assessment Group, DCM ACME (000) 000-0000, DSN 000-0000

DCM ACME
Areas of Concern

Area(s) of Concern Requiring Internal Attention Only:

- ABCDEFG was previously identified as a concern in the FY99 Annual Statement of Assurance (ASA), and pertains to...
- HIJKLMN was identified during FYOO as the situation with...

Area(s) of Concern Requiring District/HQ Attention:

- OPQRSTU was previously identified as a concern in the FY99 Annual Statement of Assurance and continues to... (Describe what role, if any, the District has played in addressing this concern)
- VWXYZA was identified during FYOO as the decision to... (Describe what role, if any, the District has played in addressing this concern)